



**The Schwarzenegger challenge for 2005:
control spending and pensions, encourage
teacher excellence, and end gerrymandering.
Will he really try to do it?**

John Kurzweil

For the record, actual implementation of the spending, pension, merit pay, and redistricting reforms the governor urged legislators to enact would, without doubt, transform California state government, moving it dramatically in the direction long championed by Republicans, especially conservatives, as well as effectively addressing the most urgent immediate crises that worry most Californians. The reforms would also deal body blows to a Democrat political machine that relies more than ever to maintain its coalition on big government's power to dole out (or withhold) political favors to key constituency groups. Already dangerously out of step with most Americans on fiscal issues and moral concerns, and still enjoying record-low standing with most Californians, legislative Democrats unable to pay off big labor through spending, pension, and other machinations (all seriously threatened by Schwarzenegger's re-

forms) and no longer permitted to use gerrymandering to protect their legislative majorities would be in a world of hurt.

But the key phrase above is “actual implementation.” Actual implementation of GOP post-recall spending cap proposals, with real workers’ comp reform thrown in, would also have worked vast changes in state policy and politics. But the “actual” never happened. With Democrats on the verge of caving in on the spending cap issue (at least according to some well-informed sources), the governor dropped the ball, settling for a much weaker balanced budget measure including no real cap; and with a tough workers’ comp initiative far along toward ballot qualification and the business community more united and determined to bring about dramatic change than it had been in recent memory, the governor accepted a relatively weak substitute workers comp measure that has left much reform of the system still waiting to be done and a lot of grumbling and some disillusionment within Schwarzenegger’s business-community base.

In addition to the talk-but-no-action charge, conservatives point with increasing concern to key administration appointments given to very liberal Democrats. In late December, for example, the governor named California Air Resources Board Chairman Alan C. Lloyd to his cabinet as secretary of the California Environmental Protection Agency. "Alan Lloyd is a big-time environmentalist," said a veteran

GOP activist. "He was Gray Davis's appointee to head the Air Resources Board." The strategist said this appointment conforms to a pattern of tough, pro-free market talk by the governor undercut by placement of liberal Democrats in key administration posts affecting the state's business climate. He said another example was the November appointment of long-time union organizer and Democrat legislative staffer Patrick Henning as director of the Employment Development Department. Addressing the Republican National Convention, Schwarzenegger said "If you believe that government should be accountable to the people, not the people to the government, then you are a Republican!" A little later he said "there is another way you can tell you're a Republican," namely that "You have faith in free enterprise, faith in the resourcefulness of the American people, and faith in the U.S. economy" — statements that explain why neither Mr. Lloyd nor Mr. Henning belong to the governor's Party, but not what they are doing in his administration. "At some point," the GOP strategist said, "people become policy. The governor needs to know he cannot take conservatives for granted."

For all this, the governor seems to have tied himself in rather tightly in his address. "He's given himself very little wiggle room," a Sacramento insider quipped, referring especially to Schwarzenegger's budget, pension, and redistricting proposals. The many, daunting political and policy intricacies involved in instituting a merit system for teachers' hiring, promotion, and payment — by no means the least in its importance among his reforms — may prove, in the opinion of observers I spoke with, sufficiently intractable to keep us from seeing much progress, at least in the short run. The debate, however, is now open on all four reforms and that is a lot. I'd like to consider some details about each of the four:

SPENDING REFORM

The word in the Capitol is that the governor's State of the State address could have been written by Ray Haynes or Tom McClintock. That conclusion seems

certainly indisputable with regard to its outline of the state's budgeting problems.

"Last year, we had \$78 billion of revenues coming in," Schwarzenegger said. "The great news is that this year, we have \$83 billion coming in, over \$5 billion more than last year. Now that's terrific news."

"However, various budget formulas require us to spend over \$10 billion more."

"Now do the math. Our revenue increases by more than \$5 billion but our spending increases by over \$10 billion. We don't have a revenue problem. We have a spending problem" — exactly the words used throughout the post-recall debate by GOP Leaders Jim Brulte, Dick Ackerman, and Kevin McCarthy, defining the debate and making the case for the centerpiece of Republican budgeting reform: putting an end to the regime of out-of-control, auto-pilot spending; in a word: a cap.

Democrats understand the central importance of this issue. In my article a year ago ("Wide

Open Town," *CPR* Jan./Feb. 2004), I quoted the left-wing *L.A. Weekly*, which described the spending cap battle as pitting those who think of "government as a solution rather than a root problem" against "the philosophy that the best destination for a tax dollar is to remain in the pocket of the taxpayer." Republicans' 2004 drive for a cap, the *Weekly* explained, "almost succeeded in using the budget crisis to reshape the very concept of government in California for years to come. Even when the economy improved and tax revenues rose," the paper's socialist writer lamented, "the collected dollars could have gone only to a 'Budget Stabilization Fund,' for such purposes as retiring debt or tax refunds. But not for expanded services or programs." As I commented at the time: "Spending every available dollar to 'expand services and programs' as soon as 'the economy improved' was, of course, exactly how Davis and the Democrats, beginning in 1999, set California on the road to fiscal chaos."

In his State of the State, the governor placed primary blame for over-spending not on profligacy when times were good but on built-in automatic spending increases, "formulas," as he called them, such as, for instance, Proposition 98's requirement that a fixed portion of every dollar coming to the state must go to education. "The way the formulas now work,"

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Schwarzenegger said, “we will never catch up. No matter how well we do, the current system is programmed to spend even more.” A little later he explained that “We could raise taxes by billions but that would only further drive up spending by billions of dollars” — an auto-pilot system accountable to no one with a built-in bias for more spending. Schwarzenegger here exposed the system’s essential rationale and appeal for the left: it makes no sense as a way to maintain orderly taxing and spending; rather its appeal is completely ideological. The “formulas” put and keep the state on the road to socialism; always bigger government, and who cares whether the specific programs or the day-to-day fiscal operations make sense? The point is to fix California inexorably on a course transferring control of our lives away from freedom toward state *diktat*, the socialist dream of gathering all economic power into its own hands so that the exercise of that power can be determined by minds (*viz.*, Democrat minds) more enlightened than those of the little people whose work merely creates the wealth. The governor objected to that ideological roadmap, and in so doing threatened, as the *Weekly* said, to “reshape the very concept of government in California.”

The Schwarzenegger proposal, which incorporates features of the federal Gramm-Rudman controls on national government spending, comes in the context of several already existing GOP proposals that would do more than force across-the-board cuts when revenues drop below spending levels: they would impose a cap on spending that would operate in good economic times as well as bad. In December, Sen. Tom McClintock introduced SCA 2, a measure, as described on his Senate website, to “restore the Gann Spending Limit to where it would have been if it had been left alone after its adoption in 1979. The GF limit in 2006 is set at \$7.5 billion more than projected to be spent in FY 2004-05, thus allowing a 4.7 percent rate of increase each year over the next two years. It is \$10.1 billion less than the 11 percent annual rate of increase projected by the Legislative Analyst’s Office.” In addition, “SCA 2 provides for an automatic rebate of over-collections directly to taxpayers” and “restores the two-thirds vote requirement on any exaction unless it is for a good or service requested by the user, does not exceed the cost of the good or service, and is not required to obtain any governmental action.” This last provision overturns the notorious *Sinclair Paint* court decision that permitted simple legislative majorities to increase tax-

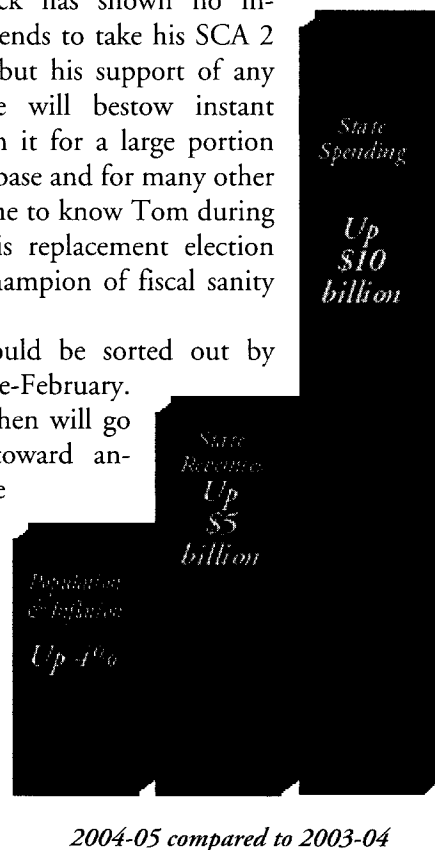
es disguised as “fees,” ignoring Prop. 13’s requirement that tax hikes receive two-thirds support.

State Sen. John Campbell has teamed up with Jon Coupal of the Howard Jarvis Taxpayers Association and Larry McCarthy of the California Taxpayers Association to submit, in five versions, the “California Deficit Reduction Act.” This proposal would limit the growth of state spending to the combined growth of population and inflation, prohibit local governments from spending beyond their available revenues, and restore the two-thirds vote rule for fee increases. The five versions are designed to permit negotiations with the governor’s office and other interested parties, presumably including Sen. McClintock, in hopes of achieving unified support for one measure to take to the voters unless the Legislature passes a genuine spending limit during the Special Session called by the governor in January — something no one seems to think will happen. Most observers I spoke with expect something to appear on the ballot, the special election one later this year if the governor calls a special, or, if not, the 2006 Primary ballot. The governor’s support of whatever ends up going before voters is key for both fund-raising and generating popular support, but the Campbell group, at this writing, plans to go ahead with one of its initiatives in any case (except if the Legislature enacts its own real limit). So far, McClintock has shown no indication he intends to take his SCA 2 to the voters, but his support of any ballot measure will bestow instant credibility on it for a large portion of the GOP base and for many other voters who came to know Tom during the recall/Davis replacement election as a reliable champion of fiscal sanity in Sacramento.

All this should be sorted out by mid- to late-February. What we see then will go a long way toward answering the question: does Schwarzenegger really mean it?

PENSION REFORM

As with overall spending numbers,



the sharp increase in state pension obligations have to be read twice to be believed: from \$160 million in 2000 to \$2.6 billion this year. Proponents of California's highly generous pension plans for state workers blame most of the steep hike here on the recently bearish stock market. But why should the people of the state absorb the risk of stock market investments while pension-receiving former state employees are blessed with guaranteed income no matter how the market behaves? Borrowing a change made by increasing numbers of private employers, Gov. Schwarzenegger wants to move from California's current guaranteed income plan to a 401(k) plan in which set amounts are contributed regularly and invested as the plan holder decides with the full amount contributed plus whatever investment income has accumulated over the years available to the plan holder at retirement. The stock market, by the way, is not quite the crap shoot many critics of this reform seem to think it is. Over long periods — 20 years, say — it tends to return around 10 percent on investment. In any event, the risk, and the potential reward, belongs to the pension holder, who can presumably opt for safe, relatively low-return investments if he or she prefers to do so. The one-sided argument that state workers should be spared all risk ignores the bald fact that some risk must be borne by someone in pension investing. The real question is who should bear it.

The risk issue aside, California's pension system is also among the nation's most generous, as befits a state whose government under Democrat rule increasingly exists to serve itself, and to do so at the peoples' expense. The *San Francisco Chronicle* recently reported that, nationally, average private sector pensions pay 1.5 percent of pay multiplied by years of service and that public-sector employees, again nationally, who retire at 60 to 65 receive, on average, 1.8 percent of final pay times years of service. And in California? Workers covered by the California Public Employees' Retirement System retire *at age 55 with 2 percent* of pay times years of service, or at age 63 at *2.5 percent*.

This Schwarzenegger reform already exists in the

form of an initiative filed by Assemblyman Keith Richman of Northridge. Richman's plan, which no one expects the Democrat Legislature to enact, would make the pension changes effective for workers hired after July 2007. The *Sacramento Bee* recently reported that a "top [Schwarzenegger] aide" said "the governor believes the taxpayers cannot continue to pay for a pension system that's not found in any other segment of American society, whether it be the federal government or major U.S. corporations." The public employee unions will view this initiative as a life-or-death issue and it could develop into this year's biggest battle of all.

REDISTRICTING

The least known, least understood issue addressed by Schwarzenegger's proposals involves the reform likely to have the greatest and most lasting impact if enacted. For those who don't know, the drawing of legislative and congressional district lines can have a dramatic effect on likely winners and losers at election time for the simple reason that most voters tend to vote along party lines — that is, a district heavily Democrat or Republican in total registration will deliver, as the case may be, a Democrat or Republican winner almost all the time. A practice known as "gerrymandering" exploits this fact to create districts where most winners are determined before elections are held. As the governor said in his State of the State: "Here's a telling statistic: 153 of California's congressional and legislative seats were up in the last election and not one — I repeat — not one changed parties. What kind of democracy is that?"

The gerrymandering technique is simple in concept: draw the lines so as to jam huge majorities of your partisan opponents' voters into the smallest number of districts that you can manage thus wasting as many of their votes as possible on superfluous super-majorities; at the same time you spread your own partisan voters more efficiently, giving each of your own districts enough votes to insure your party's victory, but also not wasting votes and, thus, insuring a larger number of districts overall to your side: *i.e.*, giving your people control of the legislative body or delegation.

The one time since the 1960s that Republicans

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won control of either California legislative house occurred in 1994, following a redistricting done *not* by legislators but by a special panel put together under court order after the Legislature and Gov. Pete Wilson could reach no agreement on new lines following the 1990 census. Eliminating gerrymandering won't guarantee Republican legislative majorities — the GOP contrived to lose its 1994 Assembly majority after just two years, though the lines hadn't changed. But failing to eliminate it, as the last election results affirmed, will almost certainly guarantee Republicans will remain the minority for many years to come.

When the initiative campaign begins, Democrats will paint the issue in strictly partisan terms. Gray Davis political guru Garry South has already been quoted saying that "If this looks to be a quick fix to give Republicans some advantage they can't win straight up at the ballot box, it's going to be serious trouble. Can Democrats beat [the governor] in that game? I don't honestly know. But he has to remember, this is a pretty considerably Democratic state." Of course, if California were really so dependably "Democratic," Garry's old boss would still be governor and his Party would have no need to rely on the thoroughly *anti*-democratic technique of gerrymandering to hold its legislative majorities. In truth, the registration lead Democrats enjoy diminishes daily. More importantly, the Sacramento Democrats are wildly out of step with their own Party's rank and file voters, not to mention with independents, which is why Gray Davis was bounced from office (despite being less left than the Dem legislative leadership).

Showing how little they understand the precariousness of their position, in December Democrat legislators arrogantly promised to resurrect all sorts of unpopular measures — homosexual marriage, drivers licenses for illegals, tax increases — that the governor vetoed last year. Keep giving Republicans the popular side of campaign issues to run on, eliminate rigged district lines, and California will again show, as it did in the recall, how "Democratic" it really is.

Opening up legislative races would almost certainly, especially over time, attract more voters and more and better candidates. Having to run in more closely balanced districts would discourage the sort of far-left extremism Sacramento Democrats routinely practice, freed as they are from any threat of voter retribution.

Schwarzenegger said he would "propose that an independent panel of retired judges — not politicians — determine California's legislative and congressional

districts. They can be drawn fair and honest, district lines that make politicians of both parties accountable to the people." The tough part will be winning and keeping voters' attention long enough to explain what it's all about and why it is important. The governor himself, in the State of the State, said that though he "learned about gerrymandering and how politicians changed the boundaries of voting areas to protect themselves" while studying to take his citizenship test, "for a long time I thought that was something that happened 'way back in the 1800s." He received better education last November. Can he similarly enlighten millions of California voters? We will see. In any event, this is one reform that, if enacted, will change state politics permanently. To reverse it, the people would have to vote to go back to letting legislators draw their own lines. That won't happen.

EDUCATION

The governor's fourth, and politically toughest to enact, proposal is to "reward excellent teachers" by setting teachers' pay according to "merit, not tenure. And I propose that a teacher's employment be tied to performance, not just showing up." A Hoover Institution study written by former high school teacher and faculty member of UC Berkeley's school of education Julia E. Koppich blamed school districts and unions for current policies designed "to maintain the fiction that 'a teacher is a teacher is a teacher.' Compensation structures have failed to recognize that some teaching jobs are more difficult than others or that some teachers are more — or less — skilled than others.

"The time has come for school districts and teacher unions to take a different tack. It is time to develop and implement a professional compensation arrangement that recognizes the complex nature of the work of teaching and that compensates teachers for both the difficulty of the assignment and the professional accomplishment that is part of it." In short, what is called "merit pay." The problem is California's "single salary schedule" that pays teachers according to their background education levels and time on the job, ignoring their teaching skills. The unions will fight merit pay with every resource they can muster. Like any lumbering bureaucracy, California's educational establishment reacts like a vampire to a crucifix against anything that takes into account the differences distinguishing one human individual from another.

The governor has outlined bold, dramatic reforms. The coming battle, if he fights it gamely, will be historic. The first indications will come before the end of February.

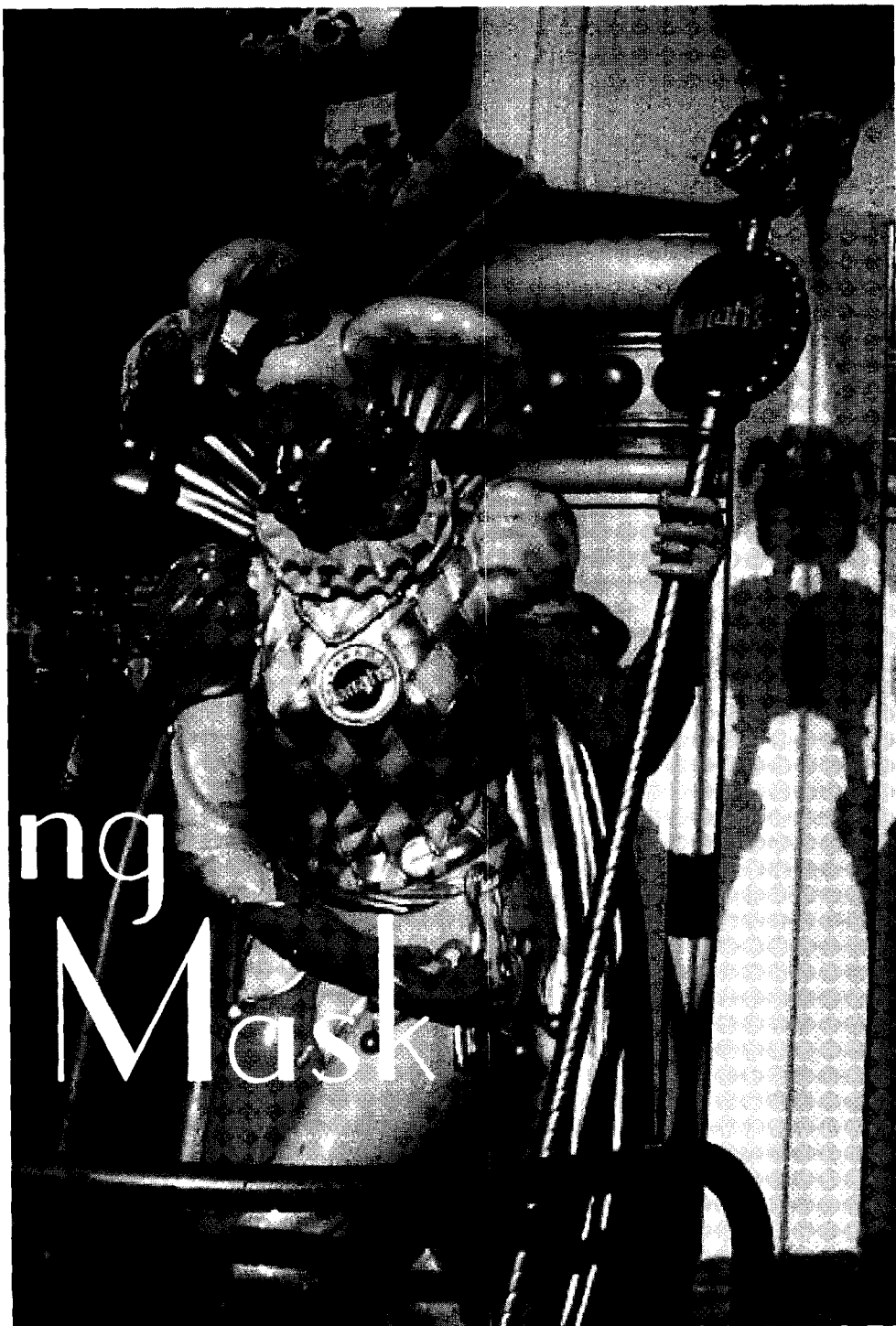
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Like a playful
harlequin, Las
Vegas connives
to *be* Potterville
while *looking*
more like
Disneyland.

Wearing the Mask

Gregory Sanford

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A few days after my yearly Christmastime evening with Frank Capra's *It's a Wonderful Life*, I visited America's real-life Potterville — Las Vegas — a place reaffirming with a vengeance that reality always outdoes fiction, no author being foolish enough to expect his readers to

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swallow the lavish levels of extravagance the world doles out regularly and without a blush. Actually, Las Vegas plays a more complicated role than did Old Man Potter's straightforward slum and center of low living in the film. Where Potterville put on no false face to save appearances, Vegas wears the mask, like the playful harlequin greeting customers at Harrahs. It tries to be both Potterville and Bedford Falls at the same time; or, rather, it connives to